INTERNATIONAL CULTURAL DIVERSIFICATION AND CORPORATE SOCIAL PERFORMANCE IN MULTINATIONAL ENTERPRISES: THE ROLE OF SLACK FINANCIAL RESOURCES

ABSTRACT:

Multinational enterprises face numerous challenges due to the difficulties of operating in various markets and the usual cultural differences between the countries in which they operate. As opposed to local firms, these firms are usually exposed to global pressure groups both in home and host countries. In addition, in order to gain license to operate in foreign markets, they are required to be regarded as socially responsible agents that contribute to sustainable development. Finally, apart from the moral reasons, high levels of corporate social performance will lead multinational enterprises to increase their reputation and legitimacy in the different areas where they have operations, and consequently may increase their revenues and levels of financial performance. Traditionally, the literature has focused on studying the relationship between international diversification and corporate results, with very few studies on the effects of internationalisation on firms' social performance. The aim of this study is to analyse the influence of international cultural diversification of an multinational enterprise on its corporate social performance and to also investigate the moderating effect of slack financial resources on this relationship. The present empirical analysis is based on a sample of 113 multinational enterprises from the United States that operates in the chemical, energy and industrial sectors. The results demonstrate that international cultural diversification is positively correlated with the social performance of firms and a high level of slack financial resources leads multinational enterprises operating in markets with different cultural profiles to improve their corporate social performance. The implications for academia, managers and policy makers are discussed.

Keywords: MNEs, international cultural diversification, corporate social responsibility, corporate social performance, slack financial resources.

INTRODUCTION

The concepts of corporate social responsibility (CSR)[1] and corporate social performance (CSP) have been the focus of considerable attention from scholars and managers in recent years

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[1] Throughout the document, the acronym CSR will be used to refer to corporate social responsibility and should be understood as a synonym of other constructs such as corporate citizenship and corporate commitment to sustainable development.

(Turker 2009). CSR may be defined as "*the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of lif*e" (World Business Council for Sustainable Development 2004).

In contrast, CSP refers to "*the measurement of the general performance of organisations in protecting an improving social well-being, compared to their main competitors, for a given period of time*" (Luo and Bhattacharya 2009: 201). CSP measures the capacity of firms to successfully implement actions that are aimed at achieving CSR. It is a concept that includes a wide range of corporate behaviour in terms of labour relations, community relations, issues related to women and minorities, environmental responsibility and product safety (Griffin and Mahon 1997; Hillman and Keim 2001). Many firms have started calculating this indicator because they consider it important, and it will not be long before shareholders and clients will start asking organisations to demonstrate their significant achievements in this aspect in a quantified and sustainable way (Luo and Bhattacharya 2009). In this research, we pay special attention to analyse CSP in order to determine the degree of success and implementation that CSR practices have as response to stakeholders' social demands.

Multinational enterprises (MNEs) have become important players in the field of CSR. Because of the characteristics of MNEs, some authors claim that these corporations can be the engines of economic progress of both developed and developing countries (Matten and Crane 2005; Porter and Kramer 2011). These firms are considered capable to drive social, environmental and ecological changes as they conduct operations in more than one market, a situation that lets them have an impact on more than one society (Bondy et al. 2012). Likewise, considering their financial and technological endowments, they are uniquely placed to contribute to the goals of international development, thereby helping with global regulation and issues relating to social causes (Matten and Crane 2005; Scherer and Palazzo 2008). Thus, some international organisations, such as the United Nations (UN) or International Labour Organisation (ILO), hold that MNEs have a privileged position in helping improve these aspects, often in collaboration with governments and non-governmental organisations (NGOs).

Other research works consider that the application of CSR practices can contribute to the long-term improvement of a company's financial results. This improvement in financial performance is achieved because CSR can produce a significant increase in the company's reputation, transparency and legitimacy (Bansal 2005; Hah and Freeman 2013; Smith et al. 2010). Likewise, its application differentiates the company from its competitors (McWilliams and Siegel 2001) and improves sales because of the increased loyalty of its customers (Bhattacharya and Sen 2003). Some authors are of the opinion that when MNEs create internal social and environmental standards, they can transfer best practices across geographical borders, thus improving social justice and the quality of life in the countries in which they operate (Bansal and Roth 2000), above all if they develop proprietary standards are more stringent than the established regulations in the markets in which they participate (Christmann 2004). Nevertheless, despite considering MNEs as corporations that would, given an adequate scope of their actions, satisfy the increasingly demanding expectations of society, many researchers claim that these firms frequently engage in abusive and unfair behaviour, depending on the territory. Thus, some conduct, such as externalising dirty operations, supplying labour with subsistence-level wages or applying very deficient work conditions, constitutes taking advantage of the very lax social and environmental regulations of foreign countries in which they operate (Strike et al. 2006; Surroca et al. 2013).

Despite the relevance of CSR to MNEs, research on this subject is still at a very early stage of development (Barin-Cruz and Boehe 2010; Kolk and Van Tulder 2010; Rodríguez et al. 2006; Yang and Ríos 2009), above all for firms that operate in diverse environments and cultures (Hah and Freeman 2013). This lack of research is surprising because cultural differences are key factors that shape CSR activities (Gray et al. 2001). In this context, Hah and Freeman (2013) recently noted the need for and importance of conducting studies on CSR activities of MNEs that operate in countries with diverse cultures.

To fill this void, we analyse how the international cultural diversification of MNEs can affect CSP. In this context, international cultural diversification refers to the diversity of the national cultures that MNEs face in the different countries in which they conduct activities (Shenkar 2001). Thus, it is not only of importance to identify the number of countries in which MNEs have operations, but it is also vital to ascertain whether these countries are culturally different. Following the seminal study by Hofstede (1980), national culture has become a critical component of international business research (Shenkar 2001). At the macro level, cultural differences between origin and destination countries are said to exist when differences in social or religious norms, languages or ethnicities can be identified (Shenkar 2001). In this context, by applying CSR policies, MNEs are faced with a problem that is similar to the dilemma that they must resolve when conducting the majority of their operations: to balance *local responsiveness* with *global integration* (e.g. Ang and Massingham 2007; Arthaud-day 2005; Barin-Cruz and Boehe 2010; Bondy et al. 2012; Christmann, 2004; Kakabadse et al. 2005; Mooij and Hofstede 2010; Wang and Juslin 2009). In the cases in which an MNE operates in culturally diverse markets, the company should analyse its CSR strategies and adapt those it deems necessary based on the culture of each country (Arthaud-day 2005; Kakabadse et al. 2005; Wang and Juslin 2009); i.e. the MNE should adapt practices that account for cultural aspects when necessary for an adequate implementation and standardise other practices that the company deems fit to be globalised (Christmann 2004; Kostova et al. 2008), thereby seeking a balance between the two strategic approaches (Ang and Massingham 2007). Furthermore, to achieve success, the MNE not only has to decide which policies to adapt and which to standardise, but the policies must also be coordinated to maintain a certain internal coherence, i.e. a set of "*ethical principles*" that will constitute the general CSR strategy at the global level to convey a brand image and achieve a social image at the international level.

In this study, under the stakeholders' theory (Freeman 1984; Freeman et al. 2007), we aim to demonstrate that the extension of activities to culturally distant countries is an opportunity for MNEs to address the diverse CSR demands that may exist in the different markets they operate in, thereby improving their level of social performance.

Aside from the relationship between international cultural diversification and CSP, studies suggest the existence of other factors that can promote or impede the social behaviour of firms (Rodríguez et al. 2006). Among these factors, the literature has established that slack financial resources can play an important role in improving CSP. Specifically, we analyse the role of slack financial resources held by MNEs in CSP. To do so, we consider that the existence of this slack is a measure of financial performance, i.e. a consequence of good performance (Waddock and Graves 1997). This prior above-average financial performance leads to excess resources, which yields additional funds that can be invested in socially responsible activities (Nohria and Gulati 1996). This study analyses whether excess financial resources can lead to better benefits derived from the international cultural diversification obtained by MNEs, which can lead to conducting advanced CSR activities, thus improving their CSP level. Thus, MNEs with a great availability of financial resources would be able to invest in more corporate social activities and achieve a better CSP (Hong et al. 2011), complying with the stakeholders' social demands in the cultural differentiated regions where they operate.

The contributions of the present article are the following. First, this paper reinforces stakeholders' theory (Freeman et al. 2007) as applied to international firms and to the performance of these corporations in the social sphere (Strike et al. 2006). Indeed, MNEs – which are characterised by having many units (parent and subsidiary units) that are located in countries with different cultural and institutional settings (Kostova and Roth 2002) – are highly visible to "activists" and NGOs, both national and international, and are also highly exposed to pressure from employees, suppliers, community groups and governments to improve their CSP (Mohan 2006; Scherer and Palazzo 2008). These firms, by operating in different environments and cultures, are more likely to face pressure from numerous stakeholder groups and NGOs (Rodríguez et al. 2006), which demand with increasing strength the development of social and environmental responsibility (Bansal 2005; Perrini et al. 2011; Scherer and Palazzo 2008). In this vein, CSP is considered a variable that efficiently measures the response capacity of firms to stakeholders' social demands (Kacperczyk 2009). This approach considers the main reason of CSR's existence to be creating value by adequate management of relationships with stakeholders in such a way that in the long term, the company can achieve better results if its behaviour ceases to be opportunistic and it pursues defined economic, social and environmental goals.

Second, the majority of research on CSP has focused on analysing its relation to financial performance (as a consequence of CSP), with some researchers even considering that social performance can serve as a predictor of long-term performance and company viability (Kacperczyk 2009). This paper contributes to the literature regarding the history of CSP (Kang 2013) through theoretical and empirical analyses of how this variable influences international cultural diversification of MNEs.

Third, this study analyses the effect of slack financial resources on the social performance of MNEs that operate on culturally distant markets.

Finally, with the aim of assessing CSP of organisations in a global manner, we empirically evaluate the practices that are normally used in the literature to assess CSR to avoid a partial or contextualised vision of the manner in which such organisations act (Taneja et al. 2011). Following the recommendations made by Waddock and Graves (1997), we consider a set of CSR practices that includes relations with the local community, relations with women and underprivileged groups, labour relations, environmental impact and the socially responsible characteristics of the product offer. By assessing these practices simultaneously, we can truly analyse the social commitment of a company (Perrini et al. 2011).

Based on a sample of 113 MNEs from the United States (USA) that operate in the chemical, energy and industrial machinery sectors with data from 2005 and 2010, the results of this study demonstrate a direct and significant relationship between international cultural diversification and improved social performance of MNEs. Second, in the case of MNEs that operate in markets with diverse cultural profiles, the presence of slack financial resources allows these firms conduct advanced CSR practices that translate into significant improvement of their CSP. Thus, the presence of slack financial resources in these organisations reinforces the existing relationship between international cultural diversification and CSP.

CORPORATE SOCIAL RESPONSIBILITY IN MNEs: A STAKEHOLDER APPROACH

The term stakeholder, which was introduced in 1963 by the Stanford Research Institute, initially referred to a small group of persons that are vital to the survival of a company (shareholders, employees, clients and other agents with technical skills essential to the company). This group broadened the initial notion of shareholder and forced management to consider these agents in the process of decision-making because of their fundamental role in the organisation's success. However, this meaning was significantly modified by the stakeholder definition proposed by Freeman (1984): "*A stakeholder of an organisation is any group or individual who can affect or be affected with the attaining of the organisation's goals*". This new vision opened the path to the multistakeholders approach. Today, the term "*stakeholders*" includes both "*those in which the organisation has an interest*" and "*those who have an interest in the organisation*" (Sternberg 1997).

Both in the academic and business world, analysis of the development basis of CSR has primarily been conducted in the framework of stakeholder theory (e.g. Jamali 2008, 2010; Kang 2013; McWilliams and Siegel 2001; Reimann et al. 2012). This theoretical framework is especially useful to explain why firms decide to implement social management practices, such as practices related to promoting social progress in the local community, protecting disadvantaged groups, improving employees' labour conditions, or enhacing the socially responsible characteristics of the products/services offered by the organisations. Based on this theory, we argue that the strategy to implement CSR in a company is the result of interactive dialogue between different groups of its stakeholders, and this process involves creating value shared between these groups that goes beyond the interests of shareholders (Freeman 1984). Nowadays, globalisation, the appearance of global social challenges, climate change and the inability of governments to face these problems alone have increased the social role of organisations (Kolk and van Tulder 2010). As a result, firms, in response to growing demands from various stakeholder groups that are affected by their corporate actions, have incorporated CSR into their corporate strategies (Matten and Crane 2005).

Based on this theoretical approach, many firms consider CSR as a priority strategic option for several reasons. First, following the reasoning of Davis (1973), there is a "*moral contract*" between the company and society by which society concedes legitimacy and power to act to the company. In the long term, if firms do not use this power responsibly, they lose the legitimacy that society has provided them. However, if public opinion, which is formed by these different interest groups, is that the firm is meeting expectations, society will provide sufficient credit for the company's successful operations. Researchers such as Porter and Kramer (2002) justify development of CSR by firms because its existence safeguards the long-term interests of the organisations.

Second, another reason for adopting CSR practices is the importance of "*reputation capital*" to capture and retain markets. Many firms consider reputation to be a reflection of corporate identity, which must be adequately profiled and conserved. Hall (1992) identifies reputation as the most important intangible asset for management, and Teece et al. (1997) hold that reputation is a strategic asset obtained through good opinions held by clients, suppliers and competitors about the company and the capacity of the company to adapt to their needs. Smith et al. (2010) consider that there is a "*halo effect of CSR*" by which firms improve their reputation, thereby increasing their credibility and consumer confidence. A reputable brand improves client loyalty and opinion and constitutes a differentiating intangible asset that offers a competitive advantage to the organisation (Maignan and Ferrell 2004). However, developing CSR and its associated reputation is not exempt from risk if these actions are interpreted by society to be merely cosmetic because of the completely instrumental nature of the policies that provide little social utility (Morsing 2006).

Finally, another advantage of maintaining active dialogue with stakeholders derived from developing CSR is mentioned by Antonacopoulou and Meric (2005), who suggest the possibility of creating a mutual learning community between an organisation and its interested parties. This approach goes beyond the traditional vision of stakeholder theory, which visualises the company and its interested parties as opponents with conflicting power relations. For these authors, there are possibilities for knowledge acquisition and learning through interaction and creating learning communities by both interested parties; they consider these learning activities as a source of value creation. Furthermore, these authors broaden the criterion of stakeholder identification by overcoming the single vision of a company and extending it to the existing social networks between related social agents. Based on these findings, implementing CSR practices will allow firms adapt to new markets that it is entering by creating channels of communication and learning with its stakeholders, which can improve its knowledge, modes of operation and relations with the destination country.

Thus, to achieve mutually beneficial relations with stakeholders, the company should know who these groups are, what power is at their disposal, their legitimacy and the urgency of obtaining the organisation’s response (Mitchell et al. 1997). This aspect is much more complicated for MNEs because they operate in distinct markets and face different stakeholder groups (Mitchell et al. 1997) with varied expectations and demands, scope (local, national, regional, transnational or global), values, communicative capacities, legitimacy, negotiation power and freedom to act. Thus, the multiplicity of markets makes MNEs work in distinct socio-political and cultural contexts and forces them to face very different visions, which affect the development of their CSR (Kang 2013). These aspects include human rights, gender roles, environmental protection, religious freedom and corruption and noticeably vary from country to country, with distinct interpretations according to a country’s development stage (Connell 2005; Kang 2013). Hence, in countries with laws that provide many guarantees, stakeholders’ demands and the firms’ actions will be focused on “*improving*” the compulsory regulations, thereby leading to advanced and considerable rights for the second or third generation (work-life balance, gender equality and renewable energy, for example). Meanwhile, in developing countries, the demands correspond to more fundamental goals, thereby leading MNEs to direct much of their actions towards guaranteeing fundamental or first-generation rights (basic liberties, applying international social and labour rights, contamination control and eradicating child labour, among others) (Navarro and García 2009).

In addition, large MNEs are much more exposed to public opinion because their activities are much more visible and well-known. When the company becomes international, it assumes higher risk of damaging its corporate image. Various scandals that involved some very important MNEs (i.e. Nike, Nestlé and Shell, among others) have led, in many cases, to social distrust (Strike et al. 2006). These circumstances can be mitigated by adequate management of CSR policies, which legitimise the firm’s activities in destination countries (Hah and Freeman 2013).

In sum, stakeholder theory essentially suggests that firms design their CSR priorities to reflect stakeholder preferences (Jamali 2010). This theory has been used systematically to identify cross-country differences in MNE–CSR orientations in response to varied and differentiated stakeholder environments (e.g. Brammer and Millington 2003; Brammer and Pavelin 2005). Specifically, in this research, the application of stakeholder theory allows us to advance and explain the influence of international cultural diversification of MNEs on their CSP.

HYPOTHESES

International cultural diversification and social performance of MNEs

International diversification can be defined as *"the number of markets the company operates on and their respective importance"* (Hitt et al. 1997:767). This concept is especially important in the case of MNEs because these firms can have physical presence in countries with varied cultural and institutional profiles (Kostova and Roth 2002).

Prior studies have established that international diversification of MNEs implies interacting with different cultures and different levels of economic and legal development, with the additional need of satisfying the needs of diverse stakeholder groups (governments, political parties, syndicates, NGOs, clients and suppliers, among others) (Crane and Matten 2010; Rodríguez et al. 2006). We must account for cultural factors that notably influence the external activities of MNEs, with significant effects in (1) negotiation processes (with clients, suppliers and management), (2) in marketing and publicity activities (given the need of adapting publicity campaigns to the characteristics of the target consumers) (Mooij and Hofstede 2010) and (3) ethical and CSR activities of the company (Scholtens and Dam 2007). As opposed to local companies, MNEs usually face markets with a greater cultural distance (CD).

The CD between two nations refers to the existing differences between the ways of thinking and acting of their respective populations (Johanson and Vahlne 1977). Kogut and Singh (1988) understand CD in MNEs to be the degree to which cultural norms in a subsidiary are different from the parent company. Shenkar (2001) considers that CD between two nations reflects the existing differences in specific values, norms and patterns of behaviour between them. When a firm wants to go international and invest in other countries, it should learn about the destination countries to overcome the difficulties of operating outside its borders, knowing that there are cultural barriers (language, values, religion, traditions and behaviours) that will impede the flow of knowledge between the investing company and its partners in the destination countries (Barkema et al. 1997).

Despite these challenges, operating in markets with greater cultural diversification helps firms generate new ideas and grants the possibility of developing new businesses. Consequently, the trend of organisations' internationalisation has been increasingly strong in recent decades (Casillas et al. 2010).

As for social issues, literature regarding MNEs and CSR is scarce (Hah and Freeman 2013). The primary difficulty of conducting these studies comes from the problems of defining CSR coupled with the complex issue of managing CSR practices by the firms that operate on international markets (Jamali 2010). Furthermore, Bondy et al. (2012) find that many parent companies do not account for the cultural visions of other countries when designing the CSR strategies that will be applied in those countries. This lack of consideration has produced failures in transferring CSR practices from MNEs' origin countries to destination countries. For example, Wang and Juslin (2009) have analysed Western firms that tried to implement Western universally accepted CSR principles in China (increased relationships with stakeholders, volunteering beyond the law and a triple bottom line). The studied attempts to transfer certain CSR practices to Chinese subsidiaries have been failures because these firms neglected the CD, which in the Chinese case is a great obstacle. To mitigate the Western bias, MNEs should pay more attention to cultural differences in their CSR management. The studies of Hofstede (1980, 2001), Schwartz (1994) and the so-called project GLOBE (House et al. 2004) may serve to broaden firms' knowledge and become valuable guidance for firms that face these types of problems.

As we discussed above, MNEs operating in various markets face more groups of stakeholders (Yang and Rivers 2009). The more international the company, the more exposed it is to global activists (Rodríguez et al. 2006). Furthermore, greater CD between the markets in which the organisation operates causes more significant challenges when developing CSR polices because the stakeholder groups have more differences to reconcile (Kang 2013). Thus, a firm with presence in the global market will face greater and more diverse pressure from interests groups than a geographically focused company. These different social demands can be attributed to different factors, such as the existence of cultural and religious differences (Kostova and Roth 2002). Thus, issues such as gender equality in the workplace (Connell 2005), corruption (Transparency International 2004) or demands in terms of responsibility for employees (Ahmadjian and Robinson 2001) vary significantly from country to country. In this context, moral judgements regarding work varies with country, and this variance causes organisations to be exposed to different institutional pressures according to the countries where they operate (Campbell 2006).

Despite these difficulties in applying CSR in countries with CD, firms still develop advanced CSR practices that lead them to improve their levels of social performence. The reasons for which MNEs that operate in culturally distant markets dedicate effort to improve their social performance are varied.

First, the greater visibility of these firms, and their greater exposure to pressure from various stakeholder groups (Christmann 2004; Crane and Matten 2010; Kang 2013; Rodríguez et al. 2006; Yang and Rivers 2009), makes the improvement of the levels of social performance a priority; moreover, this pressure makes MNEs more socially and environmentally proactive, thereby strengthening relations with the societies in which they operate (Garriga and Melé 2004). To achieve positive effects, firms should strive to inform stakeholders about CSR activities they undertake in an adequate manner (Du et al. 2010) because a competitive advantage will be achieved when the company can adequately manage and satisfy the interest groups (Sen et al. 2006). Therefore, enhancing CSP generates a positive brand image, which can be transferred through the global markets (Kang 2013) and improves organisations' credibility and consumer trust (Smith et al. 2010), thereby differentiating such companies from their competitors (Maignan and Ralston 2002). A brand image of a socially responsible firm generates insurance that protects the company's brand from negative publicity (Godfrey et al. 2009) and can help the company overcome the liability of foreignness (Bansal 2005; King and Shaver 2001). For example, charitable donations can create valuable goodwill for firms (Godfrey et al. 2009) because investments in avoiding contamination or preserving the natural environment improve the external image of firms (Schylander and Martinuzzi 2006), thereby creating an ecological reputation of the organisation and increase stakeholder trust (Russo and Fouts 1997), which increases the social legitimacy of the firm's actions (Maxwell et al. 1997).

Second, MNEs' responses to social demands allow them to significantly decrease certain risks (Deckop et al. 2006) that associated with the following: (1) non-compliance with legislation, (2) pressure from other firms from the same sector or industry associations, (3) negative reactions of public opinion and consumer associations, (4) problems with activists and NGOs and (5) possible consumer boycotts. Research regarding this subject finds that by controlling social and environmental risks, high levels of CSP indirectly contribute to cost reduction. For example, various studies have analysed how investments in environmental matters reduce certain risks by avoiding costly problems related to fines and sanctions (Aguilera-Caracuel et al. 2013; Hart 1997) or pressure tactics used by civil or client organisations (Henriques and Sadorsky 1996; Russo and Fouts, 1997). Kacperczyk (2009) and Kang (2013) hold that the management of MNEs also devotes more attention to social demands because they run a smaller risk of becoming unemployed. This lower risk is due to the fact that international diversification both reduces the risk of bankruptcy, and consequently the risk of managers' dismissal (Montgomery 1994), and increases the company's dependence on the specific skills of the managers (Shleifer and Vishny 1989) because replacing such specialised workers is very complicated and costly for shareholders.

Third, MNEs that operate in culturally diverse markets can redistribute the costs and benefits of CSR investments among their subsidiaries, thus providing them with a greater economic incentive to invest in these issues than in the case of geographically focused companies (McWilliams and Siegel 2001). For example, a positive image derived from having high levels of social performance of an MNE can be efficiently used in different markets and national cultures (Lichtenstein et al. 2004). In this context, Barin-Cruz and Boehe (2010) suggest that standardisation of CSR activities and CSP levels worldwide will help MNEs reduce costs by enabling them to reproduce social and environmental actions in various places without incurring additional programme development costs. In these cases, CSR norms will be applied within the MNE’s internal network in the different countries of operation (Surroca et al. 2013), regardless of the cultural values of each area, which would give the firm internal coherence (Kostova et al. 2008). However, there are studies that show that some MNEs standardise those CSR elements that they consider universal in CSR, such as health and work security, human rights, corruption and the fight against climate change (Bondy et al. 2012) and adapt the CSR elements when the values and norms of social behaviour in a country or region influence their successful development and implementation. There are also authors who argue that there are no such absolute CSR standards and that both CSR practices and CSP levels vary depending on each country and culture (Ang and Massingham 2007; Mooij and Hofstede 2010). Kakabadse et al. (2005) hold that CSR is understood differently in Europe, in the USA and in developing countries; therefore, MNEs should adapt their levels of social performance to the cultural features of each territory (Arthaud-day 2005; Wang and Juslin 2009).

Fourth, another reason for MNEs that operate in culturally distant markets to enhance their levels of CSP is the difficulty of transferring their knowledge (Bhagat et al. 2002) and organisational capacities from the parent company to subsidiaries. According to Madhok (1997), the primary reason for this difficulty is the lack of specific knowledge regarding the destination markets. A method to avoid this lack would be to improve their CSP because it obliges firms to consider the stakeholders from the host countries, understand the features of each community and make a respectful approach to different cultures that will allow obtaining positive results in unrelated markets. Thus, if a company wishes to adequately respond to local stakeholders and adapt certain CSR practices to the different regions of operation, it will need profound knowledge of the market and the cultural characteristics of its participants because only with this knowledge will it achieve efficient dialogue with its stakeholders, good results in its CSP and a positive effect of managing the relations with other countries and regions with significantly different economic and cultural realities.

To conclude, we argue that, by acting in culturally diverse scenarios, MNEs have the opportunity of tapping new and diverse ideas that come from distinct markets and cultural perspectives. This diversification allows firms to acquire valuable knowledge from different cultural origins (Hitt et al. 2006). According to Antonacopoulou and Meric (2005), if firms can create mutual learning communities with their stakeholders, the greater cultural diversification leads to greater incentives for improving CSP because the company will have a stronger interest in establishing dialogue with its stakeholders to learn from them and improve its knowledge regarding the markets in which it operates. Enhancing the levels of social performance will therefore allow the company to create communication and learning channels with its stakeholders, which will improve its knowledge, modes of operation and relations with destination countries.

Consequently, we propose the following hypothesis:

H1: International cultural diversification of MNEs is positively related to their social performance.

Slack financial resources and the social performance of MNEs

Once the relation between international cultural diversification of MNEs and their CSP has been analysed, we must mention that there are other factors that can affect the social behaviour of MNEs (Rodríguez et al. 2006). The availability of slack financial resources is one of these factors that influence the capacity of the firms when investing in social responsibility activities (Allouche and Laroche 2005; Strike et al. 2006; Waddock and Graves 1997).

Slack financial resources refer to the level of liquid assets, such as cash, held by the organisation (Kraatz and Zajac 2001). Resource slack can be the result of bad planning or good organisational performance in prior periods (Voss et al. 2008). Cyert and March (1963:36) define slack resources as "*the difference between the total amount of available resources and the total amount of resources necessary to maintain synchronisation between the organisation and its environment*". In this context, Bourgeouis (1981:30) states that an excess of resources is *"that cushion of real and potential resources which allows an organisation to successfully adapt to internal and external pressure to conduct changes in its policies and initiate strategic changes to improve its connection to the environment*".

Although the majority of studies have analysed the effect of social actions on the financial results of firms (Orlitzky et al. 2003), this relationship can also be analysed inversely (Salzman et al. 2005). In this case, there are few existing studies, and they analyse how the socially responsible behaviour of firms depends on the availability of financial resources (Allouche and Laroche 2005; Preston and O´Bannon 1997; Waddock and Graves 1997). These studies have two hypotheses, one negative and one positive, regarding the influence of financial statements on CSP.

The studies that postulate a negative influence of financial statements on social performance of the organisation are based on the manager opportunism hypothesis. This hypothesis states that managerial discretion regarding developing CSR is high (Carroll 1979), which allows managers to use excess resources to pursue personal interests, such as obtaining a pay raise or quicker promotions within the company (Williamson 1985). If there is a short-term compensation structure, managers can decide not to invest in social and environmental activities and even hurt shareholders and other stakeholders (Preston and O'bannon 1997).

Despite these studies, there is a second group of papers that have argued for the contrary view, i.e. that there is a positive influence of existing slack resources on CSP. This approach, which has more support in the literature, is based on the funds-availability thesis and holds that despite the fact that firms and their managers may wish to be socially responsible, their actual behaviour depends on the availability of resources. Whether a firm invests in socially responsible actions depends to a large extent on the resources that are available to the company, especially on the nature and level of excess resources. Following the argument of Voss et al. (2008), if an organisation has resources that could be put to other uses, managers tend to take more innovative actions (such as actions that are designed to meet the social demands of stakeholders), whereas when resources are limited, firms will apply more conservative strategies to protect themselves by investing in what they consider to be fundamental to their survival.

The proponents of this last thesis hold that achieving better financial results corresponds to greater possibilities of having excess resources, which can provide firms with the opportunity to invest more in any dimension included in CSR (Waddock and Graves 1997). For example, the presence of financial slack promotes certain types of environmental activities (Bowen 2002) and increases firms' disposition to donate to charity (Brammer and Millington 2008).

Thus, firms with greater slack financial resources can invest in more CSR activities and achieve a better CSP (Hong et al. 2011). Some authors, such as Cheng et al. (2013), find that the development of CSR practices depends on the lack of resource limitations or a very low level of these limits. Others, such as Allouche and Laroche (2005), consider that investments in this area depend on the availability of resources that are not required for other purposes. In the opposite case, i.e. in which the quantity of slack financial resources is less, social priorities become secondary (Sharma 2000). To summarise, the existence of excess financial resources in a company could be a factor that contributes to improvement of CSP, whereas lower financial results that do not leave the company with slack resources could be a factor that inhibits the development of CSR practices, having the firm a lower level of CSP.

There are also authors who propose a "*virtuous*" circle (Orlitzky et al. 2003; Waddock and Graves 1997), according to which there is a positive synergy between CSP and the availability of resources. This theory holds that good financial results allow firms to designate a part of these excess resources to social causes and that this social management is capable in turn of generating long-term financial benefits due to the consequent acquisition of competitive advantage in the market (Porter and Kramer 2002), improvement in reputation (Fombrum and Shanley 1990), creation of a social brand (Hoeffler and Keller 2002), increase in legitimacy of the company (Hart and Christensen 2002) and improvement in relations with stakeholders (Cornell and Shapiro 1987).

To summarise, although there are only a few studies that consider CSP as a dependent variable, the majority consider good financial results to be catalysts of CSP. An in-depth review of the issue has been conducted by Margolis and Walsh (2003), who performed an analysis of 22 studies, out of which 16 find a positive correlation between CFP and CSR, 3 find no significant correlation, and 3 find a bidirectional correlation.

As for MNEs, these firms are usually large[2]. Their size allows them to have greater financial resources at their disposal and easier access to sources of external financing for investments, which yields more benefits and greater possibilities of having slack resources. Because these firms consider social and environmental activities as valuable opportunities to increase their legitimacy (Bansal 2005; Hart and Christensen 2002), differentiate themselves (McWilliams and Siegel 2001), increase their brand value (Hoeffler and Keller 2002) and improve client loyalty (Bhattacharya and Sen 2003), they undertake these activities to a greater extent and in

[2] As for size, there is evidence that suggests that large firms exhibit better social behaviour than small firms (Waddock and Graves 1997; Ortitzky 2001).

a more ambitious manner than small and medium enterprises (SMEs) and use their available resources for social investments.

This greater financial capacity further allows large MNEs to create departments and employ teams that specialise in CSR (Bowen 2002; Nohria and Gulati 1996), which provides more effective and visible effects of their CSP. Furthermore, the effectiveness of resources invested is greater because MNEs can distribute the costs of social and environmental investments among their subsidiaries and extrapolate the benefits to the whole organisation, thereby taking greater advantage of the social image created by using the "*CSR halo*" in various markets and countries (Lichtenstein et al. 2004; McWilliams and Siegel 2001). Furthermore, whereas MNEs are usually more stable in their financial aspects (i.e. they have lower bankruptcy risk than geographically concentrated companies), they can take more risks when investing excess resources (Voss et al. 2008).

As for the thesis of managerial opportunism, which holds that better financial performance negatively affects CSR (Cespa and Cestone 2007; Preston and O'Bannon 1997), the applicability of this argument is less relevant to MNEs because these firms, which are aware of the fact that the results of their investments in other countries bear fruit in the long term, usually link the remuneration of their managers to other factors in addition to short-term profitability.

Finally, if this analysis is extended to MNEs that operate in markets with different cultural profiles, the positive effect of slack financial resources on CSP tends to be stronger. We must account for the fact that these firms must undertake a greater effort in terms of improving their levels of CSP because they usually must comply with the demands of very different stakeholders when working in culturally distant countries (Ahmadjian and Robinson 2001; Connell 2005; Kang 2013; Kostova and Roth 2002). It is also more initially complicated for MNEs to create learning groups with their stakeholders (Antonacopoulou and Meric 2005) and, although these groups provide better results with a greater scope because of the existing diversity and cultural differences between their members, the process of achieving the required synergies is longer and more costly. Therefore, MNEs need resources and must deploy them efficiently because for these firms, which operate in markets that are very different from those of their countries of origin, it is vital to gain legitimacy in these new markets (Bansal 2005; Hah and Freeman 2013) and overcome the barriers to entry that they may encounter; in the majority of cases, these barriers will be legal and legitimacy requirements that are stricter than those for local firms (Bansal 2005; King and Shaver 2001). Furthermore, these firms face greater difficulties in controlling and coordinating CSR practices

(Strike et al. 2006), which implies a need for more financial resources assigned to these issues (Jamali 2010).

For the above reasons, MNEs that operate in markets with different cultural profiles and with slack financial resources can improve their organisational social performance by establishing advanced CSR practices. Thus, the existence of slack financial resources exerts a positive effect on the existing relationship between international cultural diversity and the CSP of MNEs. Thus, we can predict the following:

H2: The existence of slack financial resources strengthens the positive relationship between international cultural diversification and the social performance of MNEs.

Figure 1 shows a summary of our research model:

Insert Figure 1 here

METHODOLOGY

Sample

To perform the empirical analysis, we used a sample of USA MNEs from the chemical (SIC code: 28), energy (SIC code: 29) and industrial machinery (SIC code: 37) industries. These three industries are characterised by deep environmental and social impacts worldwide (King and Shaver 2001). The USA was elected as the parent-company home country because such MNEs have a notorious relevance and socio-economic impact not only in their home country but also in other markets, regardless of cultural similarities. Furthermore, this country assigns great importance to social and environmental issues at the local and global levels (King and Shaver 2001; Strike et al. 2006).

Starting from the available information in the Standard & Poor’s database (Capital IQ), a simple random sampling was performed. We selected a total of 100 MNEs from the chemical sector, 100 MNEs from the energy sector and another 100 MNEs from the industrial machinery sector. We have longitudinal data from such firms for the 2005-2010 time period. The financial information was gathered from the Standard & Poor’s database (Capital IQ). However, information related to the CSR proceeds was collected from the KLD ranking database.

After considering the amount of financial resources and/or CSR information available for the initial group of firms and excluding MNEs with insufficient information, our final sample set included a total of 113 MNEs and 672 observations for the six-year time period of analysis (2005-2010).

Table 1 presents the main features of the database used.

Insert Table 1 here

Description of the variables

Independent variables:

International cultural diversification: The previously referenced literature uses a regional entropy index (REI) for measuring the degree to which an MNE operates in differentiated markets (Hitt et al. 1997). Specifically, the REI is defined by the following formula:

$$REI_j = \sum_{i=1}^{n} P_{i,j} \times \left(Ln \frac{1}{P_{i,j}} \right)$$

where $P_{i,j}$ refers to the percentage of sales from the j-th company in the i-th region and $Ln(1/P_{i,j})$ represents the weight assigned to each region. Hitt et al.'s measure has found a strong and growing acceptance in the literature regarding firms' international diversification over the last years (e.g. Yeoh et al. 2004; Zahra et al. 2000). The primary reason to use percentages of sales as a proxy for international diversification is that we can clearly capture the degree to which firms have international presence. Furthermore, the REI considers both the number of global market regions in which a firm operates and the relative importance of each global market region to total sales.

Next, using the REI as reference, we created a cultural entropy index (CEI) that, in addition to the aspects mentioned before, also considers the cultural particularities of each region. Previous researchers have grouped countries into global regions for the past few decades. In the 1980s, the majority of studies recognised only two different geographic market regions: domestic (usually the USA) and foreign (the rest of the world). Later, additional regional groupings were used. Grant (1987) identified three geographic areas: Europe, North America and the rest of the world. Hitt et al. (1997) classified foreign markets into four global regions: Africa, Asia and Pacific, Europe and the Americas. Kim et al. (1989) defined international market areas by grouping countries into six relatively homogeneous global market areas: North America (the USA and Canada); the European Community and its associates; Japan and other developed (industrialised) countries; developing (industrialising) countries; less-developed countries and centrally planned economies. Later, Kim et al. (1993) grouped countries into seven global regions. Berry (2006) classified foreign markets into two different global market regions: advanced (developed) and developing, each consisting of various sub-regions. Zahra et al. (2000) grouped countries into the following regions: USA, Canada, Asia, Australia, Latin America and Africa. In this vein, the World Bank (1995) has developed a similar classification of developing and developed regions based on the differences between them. These differences include not only the level of economic development but also political, social and financial factors such as the types of institutions, levels of political risk and intellectual property protection.

To capture the cultural particularities of each region, we relied on Hofstede's (1980) five dimensions of power/distance, individualism vs. collectivism, masculinity vs. femininity, uncertainty/avoidance index and long-term vs. short-term orientation. We collected data regarding each country's most recent global cultural value according to the Hofstede index (http://geert-hofstede.com/countries.html). Given the lack of data regarding the percentages of sales at the national level, we proceeded to build an index at the regional level. Thus, we assigned a cultural value to each region using the average scores of the countries contained in each region. Indeed, whereas one potential criticism of the CEI is the implicit assumption of cultural similarity among the countries that belong to the same region, this weakness is overcome by relying on Yeoh's (2004) country classification to build our CEI. According to this methodology, countries are grouped into five different regions based on their degree of cultural similarity: North America (USA, Canada and Mexico), Latin America, Asia, Western Europe and Eastern Europe. The World Bank (1995) has found that countries grouped in the same region according to this criterion exhibit high level of similarity in terms of their cultural norms and values. Therefore, countries that belong to the same region exhibit very low levels of dispersion in these variables. For example, due to the significant inter-trade between Mexico and the US, prior studies suggest an emerging cultural similarity between these two countries, although Mexico is often assumed to belong to the same cultural grouping with other Latin American countries (Hofstede 1980; Ronen and Shenkar 1985; Yeoh 2004). These prior findings provide support to use average scores of distinct countries in the different regions without introducing methodological bias.

Hence, considering the number of regions (i), the percentage of sales from the *j-th* company destined to the *i-th* region ($P_{i,j}$) and the cultural score assigned to each region (CSi), we obtain the CEI using the following formula:

$$CEI_j = Ln\left(\frac{1}{\frac{P_{i,j} \times CS_i}{\sum_{i=1}^{n} P_{i,j} \times CS_i}}\right)$$

High values of CEI indicate that the MNE operates in different regions with very diverse cultural profiles. In contrast, lower index values indicate that the enterprise is operating in a region (or several regions) with very similar cultural profiles.

Slack financial resources: We used the current assets/current liabilities ratio (Bansal 2005).

Dependent variable:

Social performance of the MNE: The various CSR policies and practices of the firms were acquired from the KLD database, which was developed by the company Kinder, Lydenberg, Domini. KLD provides company rankings based on the valuation of a series of social dimensions. This valuation system presents several advantages. First, it values all firms that publish financial information in the Standard & Poor's database. Second, it establishes a separate ranking for each of the main social dimensions. Third, it uses objective and uniform criteria in the valuation of the social aspects of all firms. Finally, the information under study comes from divergent sources, from both the same firms (internal sources) and outside sources.

There are several CSR practices. This study considers the social indicators that play an essential role in establishing relationships with the different interest groups (McWilliams and Siegel 2000). Following the guidelines provided by Waddock and Graves (1997), we used the indicators of relations with the local community, relations with women and disadvantaged groups, relations with employees, environmental impact and the socially responsible characteristics of the products offered by the organisations. Each index was assigned a score that ranges from +2 to -2 points, with +2 being an evident strength, 0 holding a neutral position, and -2 indicating the existence of an evident weakness. The global score of the "*social performance of MNEs*" variable was calculated as the arithmetic mean of the values of the five practices for each of the sample observations.

Control variables:

Type of industry: To consider the possible effects that the type of industry can have on the sample of MNEs, we incorporated two dichotomous variables for two of the three sectors of activity (the industrial machinery sector and the chemical sector).

Size: We introduced total revenue as a variable for each MNE (all of the MNE's business units were included).

Table 2 summarises the variables used in the empirical analysis.

Insert Table 2 here

RESULTS

To examine the results, we conducted a static panel data analysis. Static panel data analysis considers unobservable heterogeneity, including fixed or random effects in the model. Whereas the estimator of fixed effects assumes that the unobservable individual effects are fixed parameters to be calculated by correlation with the regressors, the estimator of random effects considers the selected firms to constitute a random sample (the unobservable individual effects are assumed to be stochastic and not correlated with the regressors included in the error term) (Hausman 1978).

To determine whether to apply fixed or random effects to the model, the Hausman contrast test was performed; its null hypothesis is that there is no difference between fixed and random estimators (Hausman 1978). Therefore, fixed effects are used if the null hypothesis is rejected, and vice versa. After performing the Hausmann contrast test, we chose the fixed-effects model because the null hypothesis was rejected.

Table 3 presents the descriptive and correlation statistics of all variables used in the analysis.

Insert Table 3 here

Finally, table 4 presents the results from the fixed-effects regression. Variance inflation factors (VIF) of less than 5 indicate that there are no problems of multicollinearity with the variables used. The variables were standardised with the purpose of incorporating multiplicative terms (moderating effects) into the model (Hair et al. 2009). Values that relate to the R^2 *within* (0.15) and the F statistic demonstrate that the model was fairly adjusted.

Insert Table 4 here

We can discern that MNEs' presence in different markets with varied cultural profiles spurs them to implement advanced social activities, thereby resulting in significant improvements in their social performance. Consequently, hypothesis 1 is confirmed.

The direct relationship between slack financial resources and CSP is not statistically significant. This aspect is out of the scope of this research.

Finally, the results demonstrate that MNEs with significant slack financial resources that also operate in multiple markets with diverse cultural profiles tend to experience a visible improvement in their social performance. Therefore, high levels of slack financial resources in an MNE contribute to improvements in social performance, in compliance with the different stakeholders' social demands. Thus, slack financial resources exert a positive moderating effect on the relationship between international cultural diversification and social performance (see Figure 2).

Insert Figure 2 here

In summary, hypothesis 2 is also supported by the sample of MNEs studied here.

DISCUSSION OF THE RESULTS

This study makes a contribution to the debate about the relationship between international cultural diversification of MNEs and their CSP by verifying that there is a positive and significant relationship between both constructs. Empirical verification of the hypothesis thus reinforces the aforementioned theoretical argumentation.

The justification of this relationship has been based on the stakeholders' approach (Freeman 1984; Freeman et al. 2007), which holds that MNEs that operate in markets with varied cultural profiles are exposed to greater visibility because of their international activity (Rodríguez et al. 2006). Not only do such MNEs have to cater to a greater number of stakeholder groups (Christmann 2004; Crane and Matten 2010), but they also must address very different groups that belong to clearly distinct social and economic realities (Kang 2013; Yang and Rivers 2009). This situation forces these firms to undertake greater effort to better understand and comply with the social needs demanded by their interest groups (Mohan 2006; Perrini et al. 2011; Scherer and Palazzo 2008), which is reflected in higher CSP. This CSR effort enables the MNEs to obtain operating licenses in foreign markets (King and Shaver 2001), improves their image and reputation (e.g. Bansal 2005; Crane and Matten 2010; Kang 2013) and provides them with the possibility of reducing certain risks through compliance with regulations and other social demands, thereby avoiding fines and legal sanctions (Hart 1997) and consumer boycotts (Deckop et al*.* 2006). Likewise, the cultural diversity of stakeholders who work with an MNE can enrich the social vision and actions of the company through learning from the different communities that the MNE interacts with (Antonacopoulou and Meric 2005). Another advantage of MNEs in comparison with geographically concentrated firms is the fact that internationalisation allows them to redistributes the costs and benefits of social investments among their subsidiaries, thereby achieving better CSP levels (McWilliams and Siegel 2001). Thus, a social action performed by an MNE in a certain country may, through an adequate communication campaign, improve its image internationally (Lichtenstein et al. 2004). Finally, more experience of working in culturally differentiated markets also enables easier CSR policy adaptation process and better CSP for firms (Mooij and Hofstede 2010; Scholtens and Dam 2007) because they apply already-used operational modes to the areas in which adaptation can also be necessary, such as product design, marketing and human resources management, for example (Ang and Massingham 2007). Hence, social adaptation, product standardisation and CSR practices, when correctly managed, can all improve the CSP of MNEs.

Likewise, the study also demonstrates that the presence of slack financial resources allows MNEs that operate in culturally diverse markets to intensify the application of initiatives that improve their CSP. We can verify that the presence of excess resources makes the relationship between international cultural diversification and CSP stronger. Excess financial resources can facilitate firms' social efforts because they can be adequately designated to the numerous demands of pressure groups (Yang and Rivers 2009) and address these groups' diversity (Kang

2013), thereby avoiding barriers to entry in foreign markets (King and Shaver 2001) and improving the MNEs' image, reputation and visibility (Hah and Freeman 2013; Smith et al. 2010). Furthermore, the positive impact of slack financial resources in the social performance of these firms could also owe to the fact that this possibility allows having specialised personnel with better knowledge and skills who achieve more efficient results in CSR (Bowen 2002). Furthermore, these firms face greater difficulties in controlling and coordinating CSR practices (Strike et al. 2006), which necessitates assigning more financial resources to these issues (Jamali 2010).

Notwithstanding that the positive moderating effect of slack financial resources in the analysed relationship is evident, the results are not significant when analysing the direct relationship between slack financial resources and social performance. Despite the fact that this relationship should be detected, based on the previously mentioned literature, there are studies that explain that the neutrality or lack of significance that this relationship exhibited in many studies is due to the existence of mediating and moderating variables, such as environment characteristics (Aragón-Correa and Sharma 2003) or the company's innovative capacity, among others (Surroca et al. 2010).

CONCLUSIONS AND IMPLICATIONS

In recent decades, firms, especially MNEs, have conducted many efforts at managing socially responsible practices linked to the protection and conservation of the natural environment, sustainable development, public health, employment, education, defence of human rights or the economic and social well-being of the population (Matten and Crane 2005). Based on these efforts, some authors consider these firms as agents of economic and social progress for both developed and developing countries (Kolk and van Tulder 2010; Matten and Crane 2005; Porter and Kramer 2011). Nevertheless, some MNEs also conduct opportunistic behaviour such as locating their most contaminating and most socially controversial activities in countries with less stringent laws (Strike et al. 2006; Surroca et al. 2013). Therefore, it is not clear whether the internationalisation of firms makes them socially responsible or encourages the opposite behaviour. The international activities of these firms can improve the quality of life of citizens in the markets in which they operate and can do so without destroying their environment, but it is also true that their behaviour can be the complete opposite, i.e. they can contaminate and offer terrible working conditions. Therefore, the need for analysing whether internationalisation is a factor that improves or is detrimental to CSR actions undertaken by firms seems evident. In this context, the current study analysed the role played by the CD of the markets in which MNEs operate. The results demonstrate that MNEs that act in countries with different cultural profiles conduct advanced CSR practices that result in a substantial improvement of their CSPs.

Ultimately, we observed that these firms can respond to the different CSR demands made by a very heterogeneous group of stakeholders (interests groups that are both national and international and that are directly or indirectly linked to the company's activities) by adequately managing their relationships. Managing stakeholder relationships in those MNEs that operate in culturally distant environments requires the ability to capture concrete social demands in the different environments (e.g. Mooij and Hofstede 2010; Wang and Juslin 2009). This ability allows these MNEs to improve their visibility and reputation (Bansal 2005; Hah and Freeman 2013), their legitimacy by having the approval of the rest of the social agents to act on different markets (King and Shaver 2001) and even their financial results (Orlitzky 2001; Smith et al. 2010; Waddock and Graves 1997). Furthermore, these firms can decide to implement universal CSR programmes by standardising certain CSR practices along their organisational framework and thereby achieving savings in operational costs due to better internal coherence (Christmann 2004; Kostova et al. 2008). The above benefits seem to indicate that the value that MNEs place on developing socially responsible practices is greater when they operate in culturally diverse markets.

The study also investigated the presence of slack financial resources by considering them as one of the factors that influence firms' capacity when investing in social responsibility activities (Allouche and Laroche 2005; Strike et al. 2006; Waddock and Graves 1997). Specifically, we demonstrated that the existence of financial slack in MNEs that operate in culturally heterogeneous countries intensifies their capacity for conducting advanced CSR practices, which result in a significant improvement of their CSP. This need of resources is justified by the assumed difficulty of answering the social demands of a heterogeneous group of stakeholders (Kang 2013) and creating links in their relationships that allow for obtaining relevant and applicable social knowledge (Antonacopoulou and Meric 2005) that can be used to improve the MNEs' actions in different markets. The importance of having slack financial resources in firms that operate in markets with a greater cultural diversity could also be due to the inefficiency of implementing absolute CSR standards, i.e. because of the need for designating more resources towards improving the company's capacity to understand the cultural differences of these markets and develop specific social responsibility practices in each one of them. Furthermore, a greater cultural diversity of markets also implies inefficiency in applying absolute CSR standards, which calls for more resources that will allow the specific adaptation of the socially responsible practices to the cultural differences that are present in each market. These observations, combined with the barriers to entry that are often experienced by foreign firms (Bansal 2005; King and Shaver 2001), leads us to conclude that the development of CSR in different markets is a slow, progressive and costly process that requires using a large amount of financial resources (Jamali 2010).

The present study has important implications for academia, managers and policy makers. As for academic implications, we firstly reinforced the principles of stakeholder theory (e.g. Freeman 1984; Freeman et al. 2007; Kang 2013; Waddock and Graves 1997) in the context of MNEs that operate in countries with different cultural profiles. Concretely, we show that MNEs that extend their activities in culturally distant countries can definitely improve their CSP since they are able to comply with the different stakeholder' social demands. This claim is based on the fact that the MNEs with a high level of international cultural diversification are able to do the following by applying CSR: (1) better satisfy the demands of their stakeholders, both from the origin and destination countries (Kang 2013; Yang and Rivers 2009); (2) reduce certain management risks (Decktop et al. 2006); (3) improve their reputation, image and credibility (Bansal 2005; Kang 2013); and (4) improve their knowledge and operating modes in these markets by creating learning communities with their stakeholders (Antonacopoulou and Meric 2005). These communities can be highly beneficial because of their culturally diverse stakeholder composition, which can provide the MNEs with different values, modes of operation and knowledge, for example.

Second, this study supports the argument about the inherent complexity of the CSR and CSP concepts (McWilliams and Siegel 2001). In this context, our study highlights the need for MNEs that operate in culturally different markets to analyse the specific needs of each culture and for the company itself to implement adequate CSR practices and improve their levels of CSP.

Third, our study sheds light on the current debate about international diversification and CSP (Strike et al. 2006). Specifically, it responds to the demands posited by the literature by supporting the analysis of CSP history (Kang 2013) by incorporating the concept of international cultural diversification and its impact on the CSP of MNEs.

Lastly, this study incorporates the role played by slack financial resources as an internal enhancing factor that allows improving the CSP of MNEs with a high degree of international cultural diversification. The results presented here are intended to support the recommendations of prior research that included more profound analysis of the internationalisation phenomenon and its relationship with social and environmental issues. This research is based on other studies that analysed similar issues, such as the work conducted by Strike et al. (2006), which demonstrate that international diversification of MNEs can lead to both socially responsible and irresponsible behaviour, or the study by Aguilera-Caracuel et al. (2012), which indicate that firms with high level of international experience are more likely to develop proactive environmental strategies when acting in regions with different institutional profiles (different environmental regulations and environmental normative and cognitive structures), but not in the case of firms that have been conducting export activities for many years. Taking into account the inconclusive results from prior literature about this subject, we consider it important to contribute new evidence about the impact of MNEs' international cultural diversification on the CSP and the role of slack financial resources in this relationship.

As for implications for management, it is important to note that the managers and CEOs of highly culturally diversified firms must take special interest in social issues and integrate these aspects into the company's strategy. Social activities are not solely useful for society as a whole but can also be considered a source of competitive advantage for a company because a company can differentiate itself from the rest of its competitors, gain legitimacy in the eyes of other social agents and reduce operational costs by strengthening its business model. Its development allows, most of all in the case of MNEs that operate in culturally different markets, to get to know their partners in discussion, to obtain information and satisfy the social needs of different stakeholders. Furthermore, managers should consider that slack financial resources play a key role in this type of investment, and destine significant efforts to promote social issues both within the firm and outside the firm. Lastly, managers of this type of firm, as they do in other areas of their companies, should seek a balance between the adaptation and standardisation of CSR practices and, despite having to apply specific social policies and practices to certain realities, should try to maintain an internal organisational coherence that will allow the MNE to offer a global social image in the different countries in which it operates.

As for the implications for governments and public regulators, we should note that these agents should create policies and regulations that promote conducting social activities in the different firms' areas of operation. To achieve such purposes, public authorities should concentrate their efforts on standardising the rules of play in the different markets to avoid opportunistic and malicious behaviour of the MNEs. These efforts can be realised through initiatives aimed at proliferating CSR actions (i.e. active collaboration between firms and institutions on social and environmental issues), using economic incentives (i.e. public subsidies and awards) targeted at social responsibility and, above all, through the development of more internationally equal labour and environmental regulations, which will impede firms from locating in those countries with more lax regulations concerning these issues. This armonization of the rules of play will allow the MNEs to develop a CSR strategy that will satisfy both the social demands of a specific local community and other common global social needs (Jamali 2010).

This research study has limitations as well. First, MNEs from the sample used have their parent companies located in the USA, which possibly complicates the generalisation of the obtained results. The main reason for this limitation is the fact that the regulations and cultural and institutional conditions of the origin country can influence the social strategy of MNEs, especially those social aspects that are prone to be extended by homogenous business models to other countries through a standardisation strategy (Durán-Herrera and Bajo-Davó 2013). Future investigations may try to validate and compare the results obtained in this paper with a sample of MNEs whose parent company is located in a country other than the USA. Second, because it was not possible to obtain secondary information regarding the specific percentage of sales the MNEs record in each country, we used the MNEs' sales broken down by region. These regions have a similar cultural profile, based on the Yeoh (2004) criterion. By assigning a cultural score to each region, we took the average score of the various countries that form part of this region and possibly lost relevant information regarding the cultural particularities of certain countries. It would be equally relevant to contrast the cultural aspects obtained from the Hofstede database with other information sources that capture the cultural reality of each country (both from within and outside the firm). Third, apart from the influence of national culture, other institutional pressures have pushed MNEs toward higher levels of CSR (Bansal and Roth 2000; Christmann 2004; Sharfman Shaft and Tihanyi, 2004). Regarding regulations, and according to Yang and Rivers (2009), they influence CSR practices in two ways: (1) by providing tangible inducements for firms to apply some of their resources and behave in a socially responsible way; and (2) by applying penalties if actions are not taken, or standards are contravened. For instance, Stone et al. (2004) found that the greater the amount of regulation, the more likely a firm was to adopt socially responsible behaviors, and Hamann (2004) identified that legislation increased commitment to CSR in the South African mining industry. Finally, it would be interesting to complete and contrast the CSR information obtained from the KLD database with other primary information from conducting interviews and surveys targeted at the companies' own personnel.

As future lines of investigation, it would be relevant to develop studies that consider other internal organisational factors that can impact the relationships studied in this paper, such as a firm's innovation capacity or capacity to absorb knowledge. Likewise, the results obtained are a step towards other studies that will take into account the influence of other national institutional dimensions (i.e. regulatory and normative dimensions), widely addressed by institutional theory (Aguilera-Caracuel et al. 2013; Kostova and Roth 2002), on the social performance of the MNEs. Future studies may conduct an in-depth comparison to address the similarities and differences between MNEs and SMEs in the social area. Lastly, it could be interesting to analyse the role of certain social agents, such as NGOs or ecological groups, when profiling the social strategy of MNEs, both in developed and developing countries.

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Table 1. A sample data sheet

METHODOLOGY	Static panel data analysis. Fixed effects model
HEADQUARTERS' COUNTRY	United States
INDUSTRY SCOPE	3 industries: industrial machinery, chemical and energy
POPULATION UNDER STUDY	113 MNEs and 672 observations
DISTRIBUTION BY TYPE OF INDUSTRY	49 MNEs from the industrial machinery industry (289 observations). 45 MNEs from the chemical industry (270 observations). 19 MNEs from the energy industry (113 observations).
PERIOD OF ANALYSIS	2005-2010 (6 years)
SOURCES OF INFORMATION	Financial information and sales by region: Standard & Poors' database (Capital IQ) Corporate social responsibility information: KLD database

Table 2. A description of the variables used

	Variable name	Measurement
Control variables	Industrial machinery industry	Dichotomous variable (0=does not belong to the sector; 1= does belong to the sector)
	Chemical industry	Dichotomous variable (0=does not belong to the sector; 1= does belong to the sector)
	Firm size	Total sales of each MNE
Independent variables	Slack financial resources	Total current assets/current liabilities (Bansal, 2005)
	International cultural diversification	Cultural entropy index (Hitt et al. 1997)
Dependent variable	Social performance of the MNE	Indexes obtained from the KLD database considering the criteria proposed by Waddock and Graves (1997): – Relations with the local community. – Relations with women and disadvantaged groups. – Relations with employees. – Impact on the natural environment. – The socially responsible characteristics of the products offered by the organisations.

Table 3. Descriptive and correlational statistics

	Median	Standard deviation	1	2	3	4	5
1. Social performance of the MNE	0.11	0.5	1				
2. Industrial machinery sector	0.43	0.50	–0.01	1			
3. Chemical sector	0.41	0.49	0.01	–0.72***	1		
4. Firm size	21.45	45.34	0.05	–0.04	–0.01	1	
5. Slack financial resources	0.24	0.36	0.01	–0.10**	0.10**	0.10**	1
6. International cultural diversification	0.6	0.43	0.26***	0.03	0.03	0.02	0.15***

Number of observations (N) = 672; Number of groups (MNEs) = 113

† $p < 0.10$; * $p < 0.055$; ** $p < 0.01$; *** $p < 0.001$

Table 4. The results of the fixed effects regression

Dependent variable: Social performance of the MNE

Constant	1.39 (2.23)
Industrial machinery sector	2.39 (4.24)
Chemical sector	–17.12 (9.56)
Firm size	–0.24 (0.30)
Slack financial resources	–0.08 (0.07)
International cultural diversification	**0.34*** (0.08)**
Slack financial resources x International cultural diversification	**0.24*** (0.06)**
F	4.04***
R^2 *within*	0.15
Hausman	10.63*
Number of observations	672
Number of groups (MNEs)	113

The table includes the regression model coefficients (estimators). Standard deviations are contained in parentheses.

† $p < 0.10$; * $p < 0.055$; ** $p < 0.01$; *** $p < 0.001$